

Public/Institutional Strategies

**International Workshop on Energy Efficiency
Services Industries:**

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Presentation Outline

- ☐ Barriers
- ☐ Advantages
- ☐ Enabling legislation
- ☐ Success factors
- ☐ Model program

Barriers in Public Markets

- ❑ No risk environment
 - Management lacks incentive to innovate
 - Don't understand performance contracts
- ❑ Decision-making long and complex
 - Sometime hard to identify key officials
- ❑ Established procurement practices
 - Spec and build only
- ❑ Much longer paybacks (5-7 years)

Advantages of Public Markets

- ❑ Customer is stable
 - A university isn't going anywhere
- ❑ Customer is a good credit
 - Government isn't going anywhere
- ❑ Customers have long time horizons
- ❑ Strong public interest in energy efficiency – saves public operating money

Enabling Legislation

- ☐ Exemptions from public bidding laws
- ☐ Permit design/build contracts
- ☐ Need a “champion”
 - Directly connected with chief executive
 - Persuasive
 - Real technical and financial expertise

Success Factors

- ☐ Minimize Risk
 - Customer and ESCO
- ☐ Identify and remove bottlenecks
- ☐ Focus on building improvements
- ☐ Rules and regulations

Minimize Customer Risk

- ❑ Technology doesn't work
 - Bad electronic ballasts in US
- ❑ Savings estimates wrong
 - Savings exceed total energy bill
- ❑ ESCO will be out of business
 - Case of the missing projects
- ❑ Construction will make a mess
 - Schools done at night in the US

Minimize ESCO Risk

- ☐ Bidding process long and expensive
- ☐ Decision process and timing unclear
- ☐ Customer doesn't manage project
 - Who approves change orders?
 - Who accepts completed work?
 - How are disputes resolved?
- ☐ Customer changes building
 - Raises energy use and complains that savings are missing

Identify and Remove Bottlenecks

- Identify bottlenecks
 - Usually a few individuals
- Buildings management agency
 - Empire threatened
 - Different way of doing business
- Treasurer, controller, budget agency
 - Don't understand ESCO contracts
 - Don't understand financial tools

Focus on Building Improvements

- ❑ Best customers have immediate need
 - New HVAC equipment
 - New roof or windows
- ❑ ESCO projects finance improvements
 - Savings generate cash flow
 - Cash flow pays for roofs and windows
- ❑ Some governments require energy efficiency before new project funding

Rules and Regulations

- Published and transparent
 - Step-by-step procedures
 - Clear and fair selection criteria
 - Encourage responsible competition
- Reasonable timetables
 - Sufficient time for good proposals
 - Definite schedule for decisions

Model Program

- ☐ Qualified ESCO list
- ☐ Expert help for customers
- ☐ Reasonable competition
- ☐ Standard contract terms
- ☐ Ready financing

Qualified ESCO List

- ❑ Establish by experience
 - Detailed review of qualifications
 - Similar projects
 - Customer testimonials
 - Used in US state programs
- ❑ Establish by competition
 - Model project bid
 - Used in US federal programs

Expert Help for Customers

- ☐ “Champion” Agency
 - Develops standard RFP
 - Assists customer in evaluating proposals
 - ☐ Technical analysis
 - ☐ Financial analysis
 - ☐ ESCO background checks
 - Assists customer in monitoring results
 - ☐ Accepted protocols like IPMVP
 - ☐ Keeps track of ESCO project results

Reasonable Competition

- Provide customer a way to choose
 - ESCO project approach
 - ESCO cost structure
 - ESCO project team
 - ESCO experience with similar projects
- Don't crush ESCOs with costs
 - Feasibility study sufficient
 - Hold ESCOs to $\pm 20\%$

Standard Contract Terms

- ☐ Published and transparent
- ☐ Fair to both parties
 - If unfair, not sustainable
- ☐ Standard contract management
- ☐ Standard payment terms
- ☐ Standard M&V terms
 - Use IPMVP

Ready Financing

- ❑ Sufficient financing
 - Uncertain financing will kill a program
- ❑ Clear terms
 - No fancy financial engineering
 - Enron in the US and India
- ❑ Easy processing
 - “Champion” helps customer through the process

Conclusion

- ❑ Public markets can be good for ESCOs
- ❑ Advantages outweigh barriers
- ❑ Success requires strong sponsorship
 - Identify and remove bottlenecks
- ❑ Success requires good programs
 - Fair to customer and ESCO
 - Expert help for customer
 - Ready financing

Additional Information

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